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D4.2 – Development of a monetary value scale in MIMES

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Table of Contents

Table of Contents.....	2
List of Figures	4
List of Tables.....	6
Glossary	7
Executive Summary	9
1. Introduction	11
1.1. Background and Purpose.....	11
1.2. Contribution of partners	12
1.3. Target audience.....	12
1.4. Relation to other tasks of Nature4Cities	12
1.5. Report structure	15
2. Methods for assessing NBS economic benefits and costs.....	17
2.1. The costs of an NBS	18
2.1.1. Background on life cycle costing	18
2.1.2. Towards a Life Cycle Costing of NBS	22
2.2. The benefits of an NBS.....	24
2.2.1. The total economic value of urban ecosystem services	26
2.2.2. Urban ecosystem services valuation methodologies	28
2.2.2.1. Primary valuation methods.....	28
2.2.2.2. Secondary valuation methods.....	31
3. Development of the monetary value scale assessment for NBS	38
3.1. UES monetary valuation for NBS	40
3.1.1. Systematic literature review on EVRI	40
3.1.2. Analysis of the selected studies	41
3.1.3. Value transfer for the monetary valuation scale	46
3.2. Analysis of the costs of NBS	56
3.2.1. Review of cost assessment methodologies.....	58
3.2.2. Cost typologies: results from the literature review	60
3.2.3. Selection of the functional unit	62
3.2.4. Definition of comparative scenarios	62
3.2.5. Costs and Benefits associated with stakeholders.....	63
3.2.6. Use of case studies.....	64
3.2.7. Collection of unit costs	64
4. Proof of Concepts: integration of the monetary scale in MIMES-NBS model	68

4.1.	Description of the urban forest model and its components	68
4.1.1.	Tree growth	71
4.1.2.	Partition of tree biomass and calculation of maximum transpiration	72
4.1.3.	Wood harvesting and plant residues	73
4.1.4.	Organic carbon stored in the soil module	74
4.1.5.	Limitations of the proof of concept model	75
4.2.	Biophysical and adimensional outputs, benefits, and costs	76
4.3.	Application of the urban forest model to the Park of Valdebebas (Madrid)	77
4.3.1.	Collection and preparation of the Input data	77
4.3.2.	Economic parameters	79
4.4.	Simulation results and discussion	82
5.	Conclusions and outlook	92
Appendix I	95
References	180

List of Figures

Figure 1 Diagram of the direct relations with Task 4.2.....	13
Figure 2 Steps of the methodological approach	16
Figure 3 Summary of costs and benefits associated with NBS systems	18
Figure 4 Positioning of the three types of Life Cycle Costing (LCC) approaches for the development of a socio-economic sustainability evaluation method of systems at the interface between biosphere and technosphere (after Rödger et al., 2018, in turn adapted from.....	20
Figure 5 Ecosystem services supply and demand curves (based on Costanza 1997).....	24
Figure 6 Total Economic Value framework.....	26
Figure 7 TEV of NBS implementation.....	27
Figure 8 Location of study sites from the literature review	42
Figure 9 Methodologies applied in the selected studies	43
Figure 10 Number of selected studies by type of NBS	44
Figure 11 Studies focussing of the overall economic value of NBS vs studies focussing on the economic value of specific UES provided by NBS.....	45
Figure 12 UES addressed in the literature review	46
Figure 13 Distribution of number of articles, reviewed by years, focusing on ecosystem services and NBS	57
Figure 14 <i>Submodules advanced in the proof-of-concept model are highlighted in the urban NBS modelling framework diagram</i>	69
Figure 15 Current urban forest model representation in SIMILE, showing the submodules and the auxiliary submodules.....	70
Figure 16 Illustrative screenshots representing tree growth modelling (a), partition of tree biomass by compartment and maximum transpiration (b), and plant residues (c) of the urban forest model in SIMILE	70
Figure 17 Illustrative screenshot representing showing the relationship between soil compartments in the urban forest model in SIMILE	71
Figure 18 Schematic diagram of the organic matter decay by compartment in RothC model (extracted from Coleman and Jenkinson (2014)).....	74
Figure 19 Site boundary of Valdebebas Park (Madrid) and zone of the park used as a case study	77
Figure 20 Investment costs for the area in the Valdebebas Park selected for the simulation exercise	79
Figure 21 Replanting costs for the two simulated scenarios over the 50-year horizon.....	83
Figure 22 Cost related to tree waste treatment for the two simulated scenarios over the 50-year horizon.....	84

Figure 23 Annual carbon sequestration benefits over the planning horizon (carbon price as observed in 2018 carbon voluntary markets).....	85
Figure 24 Annual carbon sequestration benefits over the planning horizon (carbon price reflects the social costs of carbon)	85
Figure 25 Annual net benefit (revenues minus costs) from wood provisioning over the simulation horizon.....	86
Figure 26 Annual monetary benefits from increased transpiration of trees over the simulation horizon.....	87
Figure 27 Spatial distribution of recreational monetary benefits in the Valdebebas Park at different periods (1, 5, 10, 15 and 25)	89

List of Tables

Table 1: Contribution of partners to D4.1.....	12
Table 2 Classification of ES monetary valuation methods (based on: Pascual et al., 2010; Brander, 2013).	30
Table 3: Monetary values adjustments for value transfer	35
Table 4 Selected NBS and their respective UES (based on Table 11 of D4.1)	39
Table 5 Value transfer of UES benefits of a urban forest.....	48
Table 6 Value transfer of UES benefits of a horticultural urban garden	51
Table 7 Value transfer of UES benefits of a wetland	53
Table 8 Value transfer of UES benefits of green walls and green roofs.....	55
Table 9 List of references including type of monetary valuation and type of costs in relation to the analysed NBS types.....	60
Table 10 Unit costs of different NBS types	64
Table 11 Cost Benefit Analysis for Scenario 1.....	90
Table 12 Cost Benefit Analysis for Scenario 2.....	90

Glossary

<u>Acronym</u>	<u>Full name</u>
CE	Choice experiment
cLCC	conventional (or financial) Life Cycle Costing
CS	Consumer surplus
CV	Contingent valuation
EC	European Commission
eLCC	environmental Life Cycle Costing
ES	Ecosystem Service(s)
FU	Functional Unit
GDP	Gross Domestic Product
GI	Green Infrastructure
IRR	Internal Rate of Return
LCA	Life Cycle Assessment
LCC	Life Cycle Costing
LCSA	Life Cycle Sustainability Assessment
LID	Low Impact Development
MAES	Mapping and Assessment of Ecosystems and their Services
MIMES	Multiscale Integrated Modelling of Ecosystem Services
NBS	Nature-based Solutions
NPV	Net Present Value
PBP	Pay Back Period
PS	Producer Surplus
PVB	Present Value of Benefit
PVC	Present Value of Costs
SDM	System Dynamics Model
sLCC	Societal Life Cycle Costing
TEEB	The Economics of Ecosystems and Biodiversity
TEV	Total Economic Value
UC	Urban Challenge
UES	Urban Ecosystem Service(s)
USC	Urban Sub-Challenge
UN	United Nations
WFD	Water Framework Directive
WP	Work Package
WTA	Willingness to Accept
WTP	Willingness to Pay

Executive Summary

To support policy and decision-making on Nature-based Solutions (NBS), it becomes of primary importance integrating the economic dimension variable in the sustainability analysis of such systems, in order to take into account the trade-offs and weight costs and benefits with a common (monetary) unit. Starting from these considerations, the Nature4Cities team of the Task 4.2 developed a monetary value scale to better inform the planning and design process for NBS implementation according to the use of a system dynamics framework based on the Multiscale Integrated Model of Ecosystem Services (MIMES).

The work illustrated in this Deliverable 4.2 (D4.2) thus represents the practical follow up of the methodological framework proposed in the previous Task 4.1 of Nature4Cities for modelling urban ecosystem services (UES) associated with NBS. Building on the MIMES work proposed there, the team of the Task 4.2 defined a quantification approach for establishing a monetary value scale that takes into account costs and benefits derived from urban NBS, allowing to evaluate the net societal benefit that can be generated out of their implementation. This monetary value scale was validated with a proof of concept model of urban forest applied to a case study in Madrid (Valdebebas Park), Spain. As a result of an extensive literature review and modelling exercise, many advantages, some limitations and the future activities required to improve such a monetary value scale were identified.

The investigation of the literature suggests that the most studied practice for NBS implementation does not always turn out to be the most economically desirable one. However, once cost effectiveness is evaluated properly, the NBS investigated in the literature can become economically attractive. This is because the costs of an NBS system shall be accounted for the entire duration of the NBS life cycle, allowing to capture a more exhaustive picture of the economic flows associated with an NBS. In this regard, life cycle costs are typically represented by all the financial flows associated with the design, investment, implementation, use, management and possible end-of-life phases of the NBS, as well as by the external costs internalized or expected to be internalized in the near future. An approach based on life cycle costing can thus allow to handle the monetarization of impacts associated with externalities when operating the NBS, being either positive or negative. In this regard, NBS do essentially provide benefits to the society in terms of urban ecosystem services (UES), which can be accounted for by means of several monetary valuation techniques.

A benefit transfer approach was selected after this literature review as the most appropriate way to monetarise the physical output from an NBS-MIMES model. By applying this approach to the simulation outputs of the Valdebebas Park NBS model, a proof-of-concept was made for the development of a monetary value scale for NBS-MIMES models in Nature4Cities. This proof of concept model eventually provides an illustrative example of dynamic simultaneous accounting

of three UES (wood provision, carbon sequestration and temperature regulation), two management costs (treatment of plant residues, and replanting), and investment costs for urban forests in a detailed spatial (100 m²) and temporal (modelling by month, later aggregated by year) resolution.

Next future efforts of the Nature4Cities team developing integrated NBS models for UES valuation will be dedicated to tailoring the advancement and application of such an urban forest model to other areas in Europe, depending on the availability of data. Moreover, the quantification functions and monetary valuation properties of this model will be incorporated into the socio-economic assessment module of the Nature4Cities Platform, which will be further expanded with test-bed cases by designing, constructing and implementing additional system dynamics based MIMES-NBS models.

The proof of concept model developed in the Task 4.2 of Nature4Cities shows that it is possible to develop a methodology, and validates its analytical framework, to characterize NBS and assess their cost-effectiveness, taking into account both benefits, co-benefits and possible negative impacts. The study illustrated in the present deliverable D4.2 also highlights that a widespread lack of context and dependence on the environment and economic knowledge. This implies that the need to rely on site-specific data is, once again, reflected in the development of such complex modelling and decision support systems. Nevertheless, with the work performed in this Nature4Cities task, the team further proves that the design and application of a systemic thinking is very promising to foster the multi-stakeholder involvement through participatory processes, whereby more evidence on NBS cost-effectiveness made available with the use of monetary value scales (as proposed in this report) might support the system integration of NBS into a sustainable urban planning.